

1. Open-market operations change:
  - A) the size of the monetary multiplier, but not chartered bank reserves.
  - ☒ B) chartered bank reserves, but not the size of the monetary multiplier.
  - C) neither chartered bank reserves nor the size of the monetary multiplier.
  - D) both chartered bank reserves and the size of the monetary multiplier.
  
2. Which of the following is the best example of public investment?
  - A) salaries of members of Parliament
  - B) government expenditures on paper clips
  - ☒ C) construction of highways
  - D) funding of regulatory agencies
  
3. The value of money varies:
  - ☒ A) inversely with the price level.
  - B) directly with the volume of employment.
  - C) directly with the price level.
  - D) directly with the interest rate.
  
4. The Bank of Canada
  - A) acts as a fiscal agent for the federal government.
  - B) supplies the economy with paper currency.
  - C) holds the deposits of the chartered banks.
  - ☒ D) does all of the above.
  
5. If the monetary authorities want to reduce chartered bank lending they should:
  - A) take actions to reduce chartered bank reserves.
  - ☒ B) take actions to increase chartered bank reserves.
  - C) ask the chartered banks to lower the desired reserve ratio.
  - D) do none of the above.
  
6. An appropriate fiscal policy for a severe recession is:
  - A) a decrease in government spending.
  - ☒ B) a decrease in tax rates.
  - C) appreciation of the dollar.
  - D) an increase in interest rates.

7. The Canadian public debt:
- A) refers to the debts of all units of government—federal, provincial, and municipal.
  - B) consists of the total debt of Canadian households, businesses, and government.
  - C) refers to the collective amount that Canadian citizens and businesses owe to foreigners.
  - ☒ D) consists of the historical accumulation of all federal government deficits and surpluses.
8. If the demand for money increases and the monetary authorities want interest rates to remain unchanged, which of the following would be appropriate policy?
- A) recall currency from circulation
  - B) raise the desired reserves
  - ☒ C) buy bonds in the open market
  - D) raise the bank rate
9. The paper money used in Canada is:
- A) National Bank notes.
  - B) Treasury notes of 1890.
  - C) Canada notes.
  - ☒ D) Bank of Canada notes.
10. The three main tools of monetary policy are:
- A) tax rate changes, the bank rate, and government deposit shifting.
  - B) tax rate changes, changes in government expenditures, and the bank rate.
  - ☒ C) open-market operations, switching Government of Canada deposits and the bank rate.
  - D) changes in government expenditures, the bank rate, and tax rate changes.
11. In an aggregate demand and aggregate supply graph, a contractionary fiscal policy can be illustrated by a:
- ☒ A) leftward shift in the aggregate demand curve.
  - B) rightward shift in the aggregate demand curve.
  - C) rightward shift in the aggregate supply curve.
  - D) movement along an existing aggregate supply curve.
12. An increase in nominal GDP increases the demand for money because:
- A) interest rates will rise.
  - ☒ B) more money is needed to finance a larger volume of transactions.
  - C) bond prices will fall.
  - D) the opportunity cost of holding money will decline.

13. Most modern banking systems are based on:
- A) money of intrinsic value.
  - B) commodity money.
  - C) 100 percent reserves.
  - ☒ D) fractional reserves.
14. Chartered banks monetize claims when they:
- A) recall loans to the public.
  - B) make loans to the public.
  - C) accept repayment of outstanding loans.
  - D) borrow from the Bank of Canada.
  - ☒ E) sell securities to the Bank of Canada.
15. Near money means:
- A) Money substitutes such as credit cards
  - B) Chequing accounts
  - C) They are not backed by gold
  - ☒ D) They do not function as a medium of exchange but they serve as a store of value
16. The opponents of government sponsored lottery argue that:
- ~~A) the revenue of government from this source is progressive and therefore, it is a good source of income for financing the health care and education services.~~
  - ☒ B) the revenue of government from the proceeding is in fact a regressive tax, it is wrong for the government to sponsor gambling and it sends the wrong signal indicating that luck is more important than education and hard work.
  - ~~C) the revenue of government from this source is proportional and the people should be free to decide whether or not they want to spend their income on the lottery tickets.~~
  - ~~D) provincial governments are faced with financial difficulties and therefore, the lottery revenue is a good source to finance the health care and education services.~~
17. The major purpose of the Bank of Canada buying and selling government securities in open market operations is to:
- ☒ A) achieve the desired interest rate.
  - B) raise money for government spending.
  - C) reduce the amount of government securities it holds.
  - D) raise money for a future tax cut.

18. Which of the following best describes the cause-effect chain of an expansionary monetary policy?
- ☒ A) A decrease in the money supply will lower the interest rate, increase investment spending, and increase GDP.
  - ☒ B) A decrease in the money supply will raise the interest rate, decrease investment spending, and decrease GDP.
  - ☒ C) An increase in the money supply will raise the interest rate, decrease investment spending, and decrease GDP.
  - ☒ D) An increase in the money supply will lower the interest rate, increase investment spending, and increase GDP.
19. Banks create money when they:
- A) add to their reserves in the Bank of Canada.
  - B) accept deposits of cash.
  - C) sell government bonds.
  - ☒ D) exchange demand deposits for the IOUs of businesses and individuals.
20. In the Canadian economy, the money supply is controlled by
- A) Parliament.
  - B) the House of Commons Committee on Finance.
  - ☒ C) the Bank of Canada.
  - D) the Department of Finance.
  - E) the Governor in Council (the Cabinet).
21. Demand deposits are also called:
- ☒ A) chequing accounts.
  - B) high-powered money.
  - C) savings balances.
  - D) Bank of Canada notes.
22. The interest rate will fall when the:
- A) quantity of money demanded exceeds the quantity of money supplied.
  - ☒ B) quantity of money supplied exceeds the quantity of money demanded.
  - C) demand for money increases.
  - D) supply of money decreases.
23. The desired reserve ratio refers to the ratio of a bank's:
- A) reserves to its liabilities and net worth.
  - B) capital stock to its total assets.
  - C) demand deposits to its total liabilities.
  - ☒ D) reserves and vault cash to its demand deposits.

24. A tax reduction of a specific amount will be more expansionary, the:
- A) smaller is the economy's MPC.
  - ☒ B) larger is the economy's MPC.
  - C) smaller is the economy's multiplier.
  - D) less the economy's built-in stability.
25. An important routine function of the Bank of Canada is:
- A) to help new chartered banks sell capital stock.
  - ☒ B) to supply the economy with paper currency.
  - C) to advise chartered banks as to the most profitable ways of reinvesting profits.
  - D) to help chartered banks develop correspondent relationships with foreign banks.
26. The purpose of a tight money policy is to:
- A) increase aggregate demand.
  - ☒ B) decrease aggregate demand.
  - C) increase investment demand.
  - D) decrease investment demand.
27. The crowding-out effect arises when:
- ☒ A) government borrows in the money market, thus increasing interest rates and net investment spending in the economy.
  - ☒ B) government borrows in the money market, thus increasing interest rates and decreasing net investment spending.
  - C) the progressivity of the tax system increases, thus decreasing interest rates and increasing net investment spending.
  - D) the progressivity of the tax system decreases, thus decreasing interest rates and net investment spending.
28. Discretionary fiscal policy refers to:
- A) any change in government spending or taxes which destabilizes the economy.
  - B) the authority which Parliament has to change personal income tax rates.
  - ☒ C) changes in taxes and government expenditures made by Parliament to stabilize the economy.
  - D) the changes in taxes and transfers which occur as GDP changes.
29. The public debt is affected by recessions because they:
- A) increase real interest rates.
  - B) decrease the value of the dollar.
  - ☒ C) increase government spending and decrease tax revenue.
  - D) decrease government spending and increase tax revenue.

30. The Federal budget deficit is calculated each year by:

- ☒ A) subtracting government spending from government revenues.
- ☐ B) subtracting consumption and investment from government spending.
- ☐ C) adding up consumption, investment, government purchases, and net exports.
- ☐ D) adding up the difference between government revenues and spending over the years of the nation's existence.